

Statement of Mr. Leland Swenson, President of the National Farmers Union
Before the House Agriculture Committee
July 18, 2001

Chairman Combest, Ranking Member Stenholm, members of the House Agriculture Committee, I am Leland Swenson, President of the National Farmers Union (NFU). On behalf of our 300,000 family farmer and rancher members it is an honor to appear before you today to discuss the Draft Farm Bill Concept Paper provided last week by the Chairman and Ranking Member as the basis for new legislation to define U.S. agricultural policy in the future.

At the outset, let me commend the Chairman and Ranking Member for their efforts in expediting consideration of new farm legislation and also for providing a draft of components that recognizes the importance of developing a comprehensive farm bill.

Unfortunately, the limitations imposed on the development of U.S. agricultural and food policy by the federal budget create a real and serious challenge in meeting all the needs that should be addressed in the next farm bill. We believe the only responsible way these important commitments can be met is by developing a commodity policy that maintains an adequate and workable safety net for producers while proactively addressing new demand creating opportunities, commodity price improvement and appropriately managing inventories through reserve and other cost containment programs including new benefit targeting mechanisms.

The concept paper is divided into seven sections: program crops, other crops, conservation, trade, research, nutrition and rural development. The NFU is pleased to offer its analysis and comments concerning each section of the draft, and contrast those views with the farm program proposal and additional agricultural policy elements supported by our members, that were initially provided to the Committee last March.

Program Crops

The program crop provisions of the draft provide for a continuation of the provisions of the 1996 farm bill for the traditional program crops, and extension of fixed, de-coupled payments to oilseed crop producers in exchange for a reduction in their counter-cyclical marketing loan rates. The concept paper also provides a one-time optional adjustment in program payment acreage bases and the establishment of a target price mechanism to reduce the impact of depressed program crop prices on producers. In addition, the draft maintains the current payment limitation provisions on marketing loan benefits and contract payments and creation of a new \$75,000 payment limitation on target price benefits. Presumably, the "three-entity" rule is maintained for the re-authorized program elements and extended to the target price provision.

In addition to the current budgetary baseline associated with the program crops, approximately two-thirds (\$44.886 billion) of the additional funding (\$73.5 billion) provided in the FY 2002

budget resolution is allocated to expanding the level of payments to those with eligible program crop acreage bases.

The NFU supports efforts to provide an equitable, counter-cyclical economic safety net for program crop producers that reduces the need for future ad-hoc assistance. We are concerned however that the farm bill concepts under discussion fail to address and correct many of the short-comings of Freedom-To-Farm, including the creation of new, price enhancing, market opportunities for producers.

Acreage Bases and Yields:

The concept paper contains provisions that provide producers the option to maintain current acreage bases or update their crop bases to the 1998-2001 average of planted acres to a contract crop for program payment purposes. This will result in the rational decision by a producer to select the base option that provides the greatest opportunity to maximize program payments regardless of current or future crop production and rotation realities. The draft however proposes to continue the use of historic program yields, including the establishment of comparable historic yields for oilseed producers, for de-coupled payment eligibility.

If adopted these provisions will encourage further consolidation of farms into larger-sized operations in terms of acreage with little regard to producer investments in productivity or production efficiency. The bias of current programs to extend a disproportionate share of benefits to the largest landowners, who are not necessarily producers, will be exacerbated.

De-coupled Payments:

Agricultural Marketing Transition Act (AMTA) payments have been correctly criticized for their non-market impact on land values and rents, benefits based on historic acreage and yield factors and payments that do not necessarily reflect economic need or assumption of production and market risk. In addition, the de-coupled nature of AMTA payments results in production and market distortions within the context of planting flexibility allowed under the current Act. By continuing an AMTA-type program, provided to even more crops, and adding a de-coupled target price component in new legislation, while maintaining current planting flexibility; the production, market and equity problems associated with the capacity for cross-subsidization of crop production that leads to planting distortions will be even greater.

Table 1, page 11, identifies the maximum national average per acre level of cross-subsidization, attributable to de-coupled payments among the program crops, that may occur under current law compared to the draft farm bill concepts. Compared to soybeans under the current program, the incentive to collect de-coupled payments for one program crop while shifting production to oilseeds is increased by the draft proposal for wheat, corn, cotton and rice.

Marketing Loans:

The draft farm bill continues the use of the commodity marketing loan program, a counter-cyclical mechanism that maintains U.S. market competitiveness while providing a minimum

programs should include, at a minimum, the establishment of a renewable fuels standard and a long-term commitment to the Global Food For Education Initiative.

In order to guarantee our ability to supply these markets we encourage the establishment of two limited reserve programs. The reserve stocks, equal to about one-year's commodity needs for bio-energy production and international food assistance, would be procured by the government. Farmers would be provided with the opportunity to store the reserve stocks.

A third, limited reserve should also be established to complement existing risk management programs. This farmer-owned reserve would be similar to a commodity savings account that could be utilized by the producer to offset a portion of the economic losses sustained due to production or quality reductions that are not indemnified by multi-peril crop insurance.

Concerning payment limitations and the targeting of program benefits, the proposal continues the status quo for re-authorized programs, including the effective elimination of limits on marketing loan benefits through the marketing certificate authority, and establishes a new limit on the benefits associated with the target price.

We believe a better system can be implemented that allows eligibility for one hundred percent of all earned marketing loan benefits. In our view, a single attribution system should be established that ties program participation to the individuals who actually undertake the production and market risk of farming. All participants would be eligible for marketing loans established as a declining percentage of cost of production on those units of production necessary to reach a maximum "gross sales" level or tier. The sales levels would be comparable to those established by USDA in their farm typology analysis. For example, all producers would be eligible for the same percentage level of marketing loan up to their first \$100,000 of loan commodities. A slightly smaller percentage level of marketing loan would apply on the next \$150,000 of loan commodities. A further reduction in the marketing loan rate would apply to the next \$250,000 of loan eligible commodities. It is our view that this new targeting mechanism will not only help ensure a more responsible distribution of program benefits, but also can be a source of additional savings in commodity program costs that we estimate could be in the \$1-1.5 billion per year range. We encourage the committee to request a further analysis of this proposal.

Finally, we recommend the Secretary have authority to offer a voluntary "Flex-Fallow" type of program to establish an appropriate balance between supply and demand in order to ensure program costs are maintained at an acceptable level.

Other Crops

The proposal provides funds to re-implement a wool and mohair program, extend the current dairy price support program, eliminate the deficit reduction marketing assessment on sugar and develop a new peanut program. For fruit, vegetable and livestock producers, the draft provides discretionary authority to combat plant and animal diseases with emergency funds and maintains the current planting restrictions for fruit and vegetable production on program payment base acres.

We commend the authors of the draft farm bill concept paper for re-establishing the wool and mohair program to assist those producers in rebuilding a sector of agriculture that has been decimated by competitive imports that are, in many cases, sold in the U.S. at world “dump market” prices. In addition, we support reserving funds for the development of a new peanut program in the near future that can address the economic concerns of the producers of that important commodity.

NFU Recommendations:

We are concerned that the simple extension of the current dairy price support program fails to adequately address the need for an improved economic safety net for that sector or ensure full compliance with U.S. laws governing the use of certain milk by-products, such as Milk Protein Concentrate (MPC).

We support the establishment of a target price system for milk producers based on a percentage of the full cost of milk production to provide an improved safety net for dairy producers. The target price should be available to those who produce less than 2.6 million pounds per year or limit their production growth to no more than average increase in annual market demand.

In addition, we support the establishment of a dairy producer assessment program that would apply to those who exceed 2.6 million pounds of production and expand output beyond the level of market growth. We believe the assessment will discourage over-production and provide resources, beyond the government’s price support responsibilities, to purchase surplus dairy products for distribution through domestic and international nutrition assistance programs.

The elimination of the sugar marketing assessment, that was established as a budget deficit reduction tool and should have been repealed at the time the federal budget achieved a surplus position, is inadequate to meet the production and unfair trade challenges that sector must confront. We support immediate action to curtail the ability of processors to avoid established sugar tariff rate quotas by importing and reprocessing sugar-containing products. In addition, we support industry efforts to achieve a better balance between U.S. production, sugar imports and U.S. market demand, and encourage an adequate level of funding be made available to implement such adjustment programs.

Similarly, while we support funding to address plant and animal disease outbreaks that impact the producers of those commodities, we believe permanent authority and funding must be provided to assist those producers when markets and prices are threatened due to production variability or unfair trade competition.

Finally, we note the draft fails to include any provisions to assist tobacco producers, who continue to be subject to declining production quotas and prices while the level of tobacco imports and concentration among processors increases. If the committee cannot agree on policies to assist tobacco producers, including an assurance that a federal tobacco inspection program will be maintained, we urge that funding also be reserved to allow further consideration and development of a future tobacco program.

Conservation

The draft farm bill proposal devotes a significant level of new funding resources to existing programs in our nation's efforts to enhance the conservation of our agricultural resource base. We are concerned, that diversified or less intensively operated farms that pose fewer environmental risks or have already invested in applied conservation practices may be less likely to be eligible for conservation program benefits or receive a disproportionately smaller share compared to those who continue to operate in ways that may degrade the environment. This may be particularly true with the Environmental Quality Incentive Program (EQIP), where the proposed level of funding is substantially increased without specific recommendations concerning eligibility requirements, program priorities and benefit limitations.

NFU Recommendations:

The NFU supports each of the programs outlined in the draft. We recommend that the enrollment level for the Conservation Reserve Program (CRP) be established at a level of not less than 40 million acres and capped at 45 million acres.

We also support the establishment of a soil rehabilitation program. This program would provide rental payments to producers who should remove land from production for an intermediate period of time, 3-5 years, in order to address weather or disease related production problems such as extended drought, flood, Karnal bunt and fusarium head blight.

We encourage the committee to ensure that EQIP program funding does not result in conservation subsidies to large, integrated enterprises that have the capacity to meet environmental and conservation objectives and regulations without federal assistance. Furthermore, we are opposed to the use of conservation funds as a tool to increase the scope of production and marketing contracts where producers have little or no management control over the livestock or crop enterprise.

Trade

The trade section of the concept paper provides for the reauthorization of numerous trade and market promotion programs, and increases the level of funding for the Market Access Program (MAP) and Food for Progress.

NFU Recommendations:

The NFU supports the inclusion of the items listed in the trade section of the draft in new farm legislation. We also believe the committee should utilize this opportunity to further promote a U.S. trade policy agenda that seeks to ensure fair competition in global agricultural trade.

In order to achieve this goal, we urge the committee to adopt recommendations to: (1) Create a mechanism to address the agricultural impact of exchange rate and currency fluctuations. (2) Seek appropriate and enforceable international commitments to ensure fair competition in commodities and products where differing labor and environmental regulations represent a substantial percentage of the total cost of production. (3) Ensure maintenance of our domestic trade remedies. (4) Encourage international coordination of efforts to reduce the anti-competitive practices and results of increased agricultural integration. (5) Eliminate all foreign policy sanctions concerning trade in agricultural and medical products. And, (6) expand the Trade Adjustment Assistance Act (TAA) to include agricultural producers.

Research

The concept paper provides funds to continue the Research Initiative for Future Agricultural Systems through FY 2011.

NFU Recommendations:

The NFU urges the committee to reauthorize the research title in new farm legislation and ensure adequate funding to extend the Research Initiative for Future Agricultural Systems through FY 2011. As part of this initiative, we support establishing research priorities that are directed to value-added, small farm issues, carbon sequestration, organic agricultural production, production sustainability and testing of the products of bio-technology.

Nutrition

The draft farm bill provides \$30 million per year for the Emergency Food Assistance Program (EFAP) and allocates \$2 billion over ten years to simplify the food stamp application process and improve numerous aspects of State level program operations.

NFU Recommendations:

We support EFAP expansion and improvements in the management of the food stamp program as outlined in the concept paper; however, we are concerned that critical domestic nutrition issues have been overlooked.

Roughly 31 million Americans are threatened by hunger each year and 12 million of those Americans are children. According to USDA, one in ten rural households faces hunger everyday.

The Food Stamp Program is the nation's primary safety net against hunger. While participation in the Food Stamp Program has dropped significantly since the 1996 Welfare Reform Act, the number of Americans who go hungry has remained constant and the demand at hunger relief agencies nation-wide is up. NFU believes that we need to strengthen the Food Stamp Program both in access to the program as well as the adequacy of benefits in order to ensure that eligible people in need receive the benefits to which they are entitled. The Food Stamp Program needs to be modified to eliminate obstacles to families who receive food stamps during transition from

welfare to work. For many low-income Americans, the cost associated with the application process, including lost wages and transportation, keep them from getting food stamps.

Equally important, NFU believes we need to restore food stamp eligibility for legal immigrants and bolster funding for the Women, Infants and Children (WIC) Program and maintain full funding for child nutrition programs such as the School Lunch Program, School Breakfast Program and Summer Feeding Programs.

NFU is a strong advocate of the Farmers' Market Nutrition Program that provides WIC or WIC eligible participants with coupons to purchase fresh produce from farmers' markets to help improve the diets of mothers and children.

NFU supports expanding Section 32, a program in which the government purchases surplus commodities and donates them to provide food for needy children and adults who suffer from hunger.

In addition, NFU supports providing grants to states, similar to the program authorized in this years agricultural economic assistance package, to purchase commodities to help curb hunger and improve nutritional levels for people in need.

Rural Development

The concept paper provides for increased funding for four specific rural development initiatives: strategic planning, direct loans for broadband expansion in rural areas, value added grants, and grants for emergency drinking water. The proposed level of rural development funding is increased by \$785 million over ten years. While each of the four areas proposed to receive increased funding is a worthy program, only one area is new – the Strategic Planning Initiative, that provides for regionally planned rural development pilot programs.

NFU Recommendations:

The NFU supports a significant expansion in rural development programs to enhance both future opportunities for producers in areas such as value-added development as well as rural infrastructure issues that affect both agricultural producers and rural communities. For farmers and ranchers, the value added grants program represents the most important priority among the limited list of priorities identified in the draft. We support the additional funding provided for this program, however, we are concerned it may not be an adequate catalyst to expand value-added opportunities to the next level. The NFU supports an even greater level of funding, along with an expansion of programs to facilitate broader participation in value-added enterprises by producers who may not be able to meet the immediate investment requirements.

The two community oriented programs for emergency drinking water grants and broadband facilitation loans are useful programs. The committee should consider, however, whether a more general emergency community grant program could be of greater utility and whether the broadband is the most immediate rural communication and/or infrastructure need at the current time.

We believe the strategic planning initiative to provide for regionally planned rural development pilot programs has merit and its effectiveness could be enhanced if the funding is utilized for empowerment zone type of projects including enterprise facilitation.

Other NFU Recommendations:

We believe the committee should also consider the merits of three additional titles within the scope of a comprehensive farm bill.

Traditionally, the farm bill has contained a credit title. We believe, given the high level of economic stress faced by producers, local businesses and rural communities; it is important for the committee to fully review the current provisions of the credit title. By so doing the committee can determine if the authorities provided both the Farm Service Agency and the Farm Credit Service are adequate and appropriate in today's agricultural environment.

We also urge the committee to adopt an energy title to reflect both the new opportunities in agriculture to produce a broad range of renewable energy resources as well as the increased reliance of modern agriculture on external sources of energy related inputs.

In addition, we urge the committee to consider adding a title to the farm bill to address the issue and impact of agricultural concentration. Although this issue has multiple venues of jurisdiction, we believe it is so critical to the effectiveness of both domestic and trade policy and the future of U.S. production agriculture that it should be an integral part of any effort to address agricultural policy.

Conclusion

Mr. Chairman, under your leadership and that of Ranking Member Stenholm, much debate and many ideas have surfaced concerning the elements necessary to create an effective food and agricultural policy for the United States. We believe the open process you have established for consideration of a new agricultural policy provides a welcome opportunity to achieve a workable farm program that is based on consensus and compromise.

The National Farmers Union is unable to endorse all the components of the farm bill concept paper presented last week because they cannot adequately address the food and agriculture needs of America within the available budget. This reality requires all of us who support and promote American agriculture to seek new methods to ensure the available resources are utilized in the most effective ways possible to enhance the economic well-being of producers while meeting the conservation, development and nutrition challenges we must face as a nation.

We look forward to working with you, Mr. Stenholm, and the members of the committee in a constructive manner to craft such a policy. I will be pleased to respond at the appropriate time to any questions you or members of the committee may have.

Table 1							
Comparison Of Cross-subsidization Capacity							
Commodity	Wheat	Corn	Barley	Sorghum	Soybeans^	Cotton	Rice
Current Program:							
Nominal De-coupled Payments (maximum)	0.46	0.26	0.19	0.31	0	5.54	2.04
Acreage Factor	85%	85%	85%	85%	85%	85%	85%
Program Payment Yield	34.5	102.6	46.6	57.0	0	6.04	48.15
\$/Acre Available To Cross-subsidize Production	13.49	22.67	7.53	15.02	0.00	28.44	83.49
House Agriculture Committee Draft:							
Nominal Decoupled Payments (maximum)	1.42	0.86	0.71	0.72	0.84	20.98	4.21
Acreage Factor	85%	85%	85%	85%	85%	85%	85%
Program Payment Yield	34.5	102.6	46.6	57.0	30.0	6.04	48.15
\$/Acre Available To Cross Subsidize Production	41.64	75.00	28.12	34.88	21.42	107.71	172.30
^soybean payment yield estimated as average 1981-85 of national average yields							

Table 2							
Comparison Of To Cost Of Production (2003 crop - \$ per unit)							
Commodity	Wheat	Corn	Barley	Sorghum	Soybeans	Cotton	Rice
Current Program:							
Nominal Safety Net	3.04	2.15	1.84	2.02	5.26	57.46	8.54
Marketing Loan Rate	2.58	1.89	1.65	1.71	5.26	51.92	6.50
Effective AMTA Rate	0.32	0.16	0.12	0.22	0.00	4.38	1.37
Safety Net (effective)	2.90	2.05	1.77	1.93	5.26	56.3	7.87
House Agriculture Committee Draft:							
Nominal Safety Net	4.00	2.75	2.36	2.61	5.76	72.90	10.71
Marketing Loan Rate	2.58	1.89	1.65	1.89	4.92	51.92	6.50
Effective AMTA Rate	0.32	0.16	0.12	0.22	0.21	4.38	1.37
Effective Counter-Cyclical Payment (maximum)	0.66	0.37	0.32	0.29	0.31	12.21	1.79
Safety Net (effective)	3.56	2.42	2.09	2.40	5.44	68.51	9.66
NFU Proposal:							
Nominal Safety Net	4.01	2.44	2.81	2.95	5.08	77.00	8.29
Marketing Loan Rate	4.01	2.44	2.81	2.95	5.08	77.00	8.29
Safety Net (effective)	4.01	2.44	2.81	2.95	5.08	77.00	8.29
Full Economic Cost Of Production	5.01	3.05	3.51	3.69	6.35	96.25	10.36
Loan Rate As Percent Of Cost Of Production:							
Current Program	51.5%	62.0%	47.0%	46.3%	82.8%	53.9%	62.7%
House Agriculture Committee Draft	51.5%	62.0%	47.0%	51.2%	77.5%	53.9%	62.7%
NFU Proposal	80.0%	80.0%	80.1%	79.9%	80.0%	80.0%	80.0%
Safety Net As Percent Of Cost Of Production:							
Current Program	57.9%	67.2%	50.4%	52.3%	82.8%	58.5%	76.0%
House Agriculture Committee Draft	71.1%	79.3%	59.5%	65.0%	85.7%	71.2%	93.2%
NFU Proposal	80.0%	80.0%	80.1%	79.9%	80.0%	80.0%	80.0%